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IN THE
Supreme Court of the United States

OCTOBER TERM, 1991

TWO PESOS, INC.,

Petitioner,

v.

TACO CABANA INTERNATIONAL, INC., *et al.*,

Respondents.

**On Writ of Certiorari to the United States
Court of Appeals for the Fifth Circuit**

REPLY BRIEF ON THE MERITS

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SUMMARY OF THE ARGUMENT

The Fifth Circuit presumes from the appearance of it that Respondents' "whole business" image trade dress is protectable and ignores its demonstrated lack of secondary meaning. The Second Circuit requires proof of "secondary meaning" because Section 43(a) of the Lanham Act does not protect and permits copying where there is no actual distinctiveness after long use. There can be no actionable false designation of origin where the "original" origin is not publicly recognized or registered.

The cursory language of Section 2 of the Lanham Act does not inclusively or preclusively define the standards for unregistered and complex "whole business" trade dresses. It defines what must be so in order for an examined mark to obtain the benefits of registration denied to unregistered marks. Section 43(a) is intended by Congress to be the vanguard of the Lanham Act for developing the federal law of unfair competition.

The conflict between the Fifth and Second Circuits may be resolved and the criticisms of Respondents and the USTA of the Second Circuit's rule fully accommodated by minor refinements and extensions to the Second Circuit rule which recognize all interests and protect the Congressional policies involved.

Respondents' effort to get protection for their "whole business" image as a trade dress threatens to make the litigation process too subjective and uncertain and seriously threatens to undermine the Congressional policies and interactions of trademark law, copyright and patent law and the law of competition.

ARGUMENT

I. The Second Circuit's Approach Is More Sensible And Realistic Than The Fifth Circuit's.

A. The Conflict Between the Circuits is Clear.

The narrow legal issue in this case is whether secondary meaning must be proved to have a finding of inherent distinctiveness. The Second Circuit, in *Stormy Clime*¹ and *Murphy*, allows inherent distinctiveness, but only where secondary meaning is proved to exist. The Fifth Circuit, in *Chevron*, allows inherent distinctiveness, with or without proof of secondary meaning. The Fifth Circuit, in *Taco Cabana*, allows inherent distinctiveness, even where secondary meaning is proved not to exist. And the Ninth Circuit, in *Fuddruckers*, suggests the impossibility of having inherent distinctiveness, if secondary meaning does not exist.²

¹ *Stormy Clime Ltd. v. ProGroup, Inc.*, 809 F.2d 971 (2d Cir. 1987), *Murphy v. Provident Mutual Life Ins. Co.*, 923 F.2d 923 (2d Cir. 1990), *cert. denied*, 112 S. Ct. 65 (1991), *Chevron Chemical Co. v. Voluntary Purchasing Groups, Inc.*, 659 F.2d 695, 702 (5th Cir. 1981), *cert. denied*, 457 U.S. 1126 (1982), *Taco Cabana Int'l, Inc. v. Two Pesos, Inc.*, 932 F.2d 1113 (5th Cir. 1991), *cert. granted*, 112 S. Ct. 964 (1992), and *Fuddruckers, Inc. v. Doc's B.R. Others, Inc.*, 826 F.2d 837 (9th Cir. 1987).

² Although its holding is superficially compelling (see footnote 10), *Chevron* is actually a badly decided case. The trade dress upheld as inherently distinctive in *Chevron* had been in use since 1971, approximately six years before the lawsuit. 659 F.2d at 699. The District Court found that, after all that time, the trade dress still did not have any secondary meaning. *Id.* at 702. The Fifth Circuit ignored this finding and its implications, and instead wrote, "... there is no reason to require a plaintiff to show consumer connotations associated with such arbitrarily selected features." *Id.* (emphasis added). (How the features are selected is immaterial. The requirement is that they be arbitrary and not in the lay sense of that word, but as that word is used in trademark law.) The Fifth Circuit went on to duck evaluation of the arbitrariness of the trade dress by suggesting that the principle issue was not that inquiry, but was instead whether the public was confused. 659 F.2d at 703. Yet Judge Learned Hand explained in *Crescent Tool Co. v. Kilborn & Bishop Co.*, 247 F. 299 (2d Cir. 1917), that, without actual distinctiveness, there cannot be confusion. The Fifth Circuit also "found" a likelihood of

The Second and Ninth Circuits have the more sensible view of it. This is especially true if the trade dress has been in use for some time.

B. Actual Distinctiveness Should Be Proved For a Trade Dress That Has Been in Use.

As the cases indicate, the relationship between inherent distinctiveness and secondary meaning is not well-understood. Much of the problem is one of language, as Respondents suggest at 20. There is confusion in the cases on what the key words mean.

The concept of secondary meaning in cases involving inherently distinctive trade dresses is not properly secondary meaning at all. It is primary meaning.³ If a new trade dress is fanciful or arbitrary, no secondary meaning as a trademark is necessary because, by definition, the trade dress has no primary meaning that needs to be overcome by the development of a secondary meaning as a mark. However, for such a trade dress, there is still the need to acquire and prove primary meaning as a mark, that is, to become actually and demonstrably recognized by the public as a mark or symbol of the seller and only the seller; in other words, to become actually distinctive.⁴ Actual distinctiveness can exist as either primary meaning, in the case of fanciful or arbitrary marks,

confusion after the District Court had found, as a matter of fact, there was no likelihood of confusion. *Id.* and 659 F.2d at 702.

³ Even the nomenclature "inherently distinctive" is a poor choice of words. What is actually meant is "presumably distinctive" or "presumed distinctive."

⁴ Without public recognition as an identifier, there is little to be protected under the Lanham Act. Realizing what it means for Section 43(a) of the Lanham Act to preclude a "false designation" of origin, one astute commentator has explained the problem this way: "Unless the public has come to know a particular mark as indicating a particular source of origin, a finding of the requisite falsity would be anomalous since there would be no standard against which to measure such falsity." Germain, *Unfair Trade Practices Under Section 43(a) of the Lanham Act: You've Come a Long Way, Baby — Too Far, Maybe?*, 49 IND. L.J. 84, 103 (1973).

or as secondary meaning, in the case of other marks. Whether as primary meaning or as secondary meaning, actual distinctiveness must be proved.

The issue raised by these cases is whether there should be a requirement of proof of actual distinctiveness for a trade dress claimed to be fanciful or arbitrary that has been in use for some time.⁵ In this case, a trade dress, which is claimed to be fanciful or arbitrary (*i.e.*, presumably distinctive) and which has been held to be so, has been in use for more than 10 years and it is still not actually distinctive. It is not recognized by the public as a trademark at all in its general area of use.⁶ The obvious suggestion here is that a trade dress in use for so long cannot be inherently or presumed distinctive if it is not actually distinctive.

⁵ When a trade dress has been in use for some time, there is no reason to simply guess about whether it should be presumed distinctive. The marketplace has the answer.

⁶ Respondents argue a finding of no actual distinctiveness in Texas is not dispositive. Res. Br. at 15, 21 and 25. This is incorrect. First, selection of the State of Texas for their area of recognition was of Respondents' own choosing. They drafted the Jury instruction on "secondary meaning" (a fact suggesting Respondents believed their complex trade dress was not so inherently distinctive). Second, restaurant patrons are notoriously widespread travelers. See *Fuddruckers*. So it is not just a question of where Taco Cabana's restaurants are located. It is a question of where their patrons come from. Third, assuming Respondents' narrower and incorrect view of the relevant geography, it is then the case that Section 43(a) protection may not be granted where there is no actual distinctiveness or a federal registration giving the broader protection. Two Pesos went into Texas cities where Respondents were not located or planning to go. JA II 3-6. After more than a decade of staying in San Antonio, Taco Cabana then came after Two Pesos, entered Two Pesos' marketing areas and recovered damages for infringement in those areas — clear error. Fourth, absent a federal registration, protection may not be afforded in other areas where a mark owner is not doing business.

C. The Fifth Circuit Relies Upon Unfounded Presumptions Instead of the Facts Available.

It is often difficult to determine, just by looking at it, whether a complex trade dress is in fact inherently distinctive.⁷ That is, in the Fifth Circuit's view of it, it is often difficult to determine whether a presumption of actual distinctiveness should be made for a trade dress, independently of what has already occurred in the marketplace. This difficulty is particularly troublesome when the claimed trade dress is the image of a competitor's "whole business."⁸ Here, Respondents' trade dress is descriptive of an actual restaurant. That is one of its primary meanings.⁹ For these reasons, proof of secondary meaning is required for Respondents' trade dress.¹⁰

⁷ The USTA concedes this point. Am. Br. at 14. See also *Turtle Wax, Inc. v. First Brands Corp.*, 781 F. Supp. 1314 (N.D. Ill. 1991), which expressly supports this view. In such contexts, unfounded presumptions of distinctiveness should not go un rebutted by contrary available evidence.

⁸ This is so for several reasons. First, trade dresses that are complex almost by definition include functional and communicative attributes which are often needed or properly wanted by other competitors in order to compete effectively. Unlike fanciful and arbitrary word marks, trade dresses are seldom "wholly and exclusively used" for identificational purposes. They entail many other useful and needed aspects. Secondly, fanciful and arbitrary word marks have no function or purpose at all, except to identify source. Therefore, they offer no inherent competitive advantages to other competitors, other than the goodwill that develops in them. Fanciful and arbitrary word marks are simply tacked onto products like a name; protection of them does not improperly hinder competitors at all because functional and communicative aspects of the businesses remain available for all to use.

⁹ Others are that its Mexican decor describes (a) the type of food sold in the restaurants and (b) the geographic origin of that type of food. How a complex "whole business" trade dress including such a decor could be viewed as inherently distinctive is a point that bothers the USTA as well. See Am. Br. at 17.

¹⁰ One interesting reading of the cases in this context is as follows: In *Chevron*, protection was granted for a two-dimensional label that was simple and much like what people think of as a trademark. In *Stormy Clime*, it was denied for the entire appearance of a raincoat. The public thought the raincoat was a raincoat, not a

The Fifth Circuit's point of view does not adequately take these considerations into account. Neither did the Jury.¹¹ The Fifth Circuit's frame of reference is *a priori* and theoretical, much like that of a trademark examiner in the Trademark Office considering an application for a word mark. The question posited is whether there will be public recognition of the trade dress as an exclusive identifier of the seller. The answer is arrived at solely by considering whether the trade dress should be presumed to have such recognition, based on simplified inferences derived from its appearance. Whether there is actual distinctiveness or not is ignored.¹²

D. The Second Circuit's Approach Makes Use of All Available Evidence.

However, the frame of reference of the Second and Ninth Circuits and that of actual litigation is much different. Real life experience is readily at hand. The question of inherent distinctiveness is considered *ex post* and as a practical matter. That is, from its actual use in the marketplace for some time, is a trade dress, which is not registered, but claimed to be inherently distinct-

trademark or symbol of its owner. The idea that emerges from these two cases and others is that if a trade dress consists of too many different elements, including some that are functional, some that are commonplace, and others that are descriptive, or if the trade dress is also understood to be something else as well by the public, such as a restaurant or a raincoat, then it should not be protectable. It includes too much and is descriptive or generic. Only more limited and segregated aspects that are like symbols or marks stand much of a chance to be perceived by the public as such. Overreach kills.

¹¹ This was so because the Jury instruction on inherent distinctiveness was wholly inadequate, as the USTA suggests. See Am. Br. at 5 and JA I 86.

¹² Often a presumption of distinctiveness is made solely on the basis that, in the eye of the beholder and when viewed as a whole, the trade dress is not primarily or predominately functional or descriptive. See, e.g., *Roulo v. Russ Berrie & Co.*, 886 F.2d 931, 935 (7th Cir. 1989), *cert. denied*, 493 U.S. 1075 (1990). Analytically, this approach is unsound because it simply begs the question, as was done here.

tive, really distinctive in fact? This is a legitimate and proper inquiry when the answer is available. It is one investigated by the Second Circuit, but ignored by the Fifth and some other circuits.

The Second Circuit also looks to the appearance of the trade dress, but goes further and requires empirical proof, derived from the history of use, that the trade dress claimed to be inherently distinctive is actually distinctive in fact. *Murphy and Stormy Clime*. Unlike the Fifth Circuit, the Second Circuit tests the presumption with the available empirical evidence, rather than ignores such evidence. In this case, the Fifth Circuit upheld the presumption, but did so in the face of a finding that the empirical evidence clearly refuted the presumption. This is obviously an absurd result.

The Second and Ninth Circuits' approach is the most sensible and the most in accord with Congressional intent regarding trademark law, copyright and patent law and competition policy. The Second Circuit's approach is also the analysis most amenable to further refinement and development, given the criticisms of it.

II. The Criticisms Of The Second Circuit's Requirement Of Actual Distinctiveness Are Minor Or Correctable.

Respondents and the USTA raise essentially four criticisms of the Second Circuit's requirement of proof of "secondary meaning" to establish inherent distinctiveness. The first is that the requirement of secondary meaning introduces an asymmetry into trademark law. It would apply to trade dresses, but not to registerable word marks, such as ESSO®, EXXON® and KLEENEX®.¹³ However, these word marks, unlike most complex trade dresses, are readily perceived to have the capacity to be inherently distinctive because they are obviously and wholly fanciful. Such is seldom the case for a trade dress.¹⁴

¹³ This criticism is raised by Respondents at 42 and by the USTA in its *amicus* brief at 10 and 14.

¹⁴ See note 7, *supra*.

Symmetry for its own sake has little to recommend it. Moreover, the contention of existing symmetry is overstated. Word marks that are fanciful or arbitrary are easily registerable; complex trade dresses like the present one are not.¹⁵ Also, when word marks are registered, they become the subject of application and subsequent review and approval or disapproval by a skilled trademark examiner. Complex trade dresses are not. Word marks that are registered are the subject of public notice requirements, typically met by publication. Complex trade dresses are not. They become marks, if at all, by private fiat, with an occasional judicial declaration after the fact . . . if there is a dispute. A less symmetrical arrangement is difficult to imagine.¹⁶

Respondents argue that the statutory standards for a Trademark Office examiner to determine registrability on the Principal Register dispositively apply to the present complex trade dress for which there has been no application for registration.¹⁷ The effort is presumptuous at best and actually, incorrect or ill-advised.¹⁸ The very language of Section 2 of the Act itself

¹⁵ See *In re Morton-Norwich Products, Inc.*, 671 F.2d 1332 (C.C.P.A. 1982), for an example of the troubled and limited reach of Trademark Office registration practice regarding relatively simple trade dresses under the Lanham Act.

¹⁶ A registered word mark placed on the Principal Register without a required showing of secondary meaning or actual distinctiveness is entitled only to a rebuttable presumption of inherent distinctiveness. See section 14 of the Act, 15 U.S.C. § 1064, and, for examples, *GTE Corp. v. Williams*, 904 F.2d 536, 538 (10th Cir.), *cert. denied*, 111 S. Ct. 557 (1990), and *Dan Robbins & Assoc., Inc. v. Questor Corp.*, 599 F.2d 1009, 1013-14 (C.C.P.A. 1979).

¹⁷ See Res. Br. at 29-36. Also see Section 2 of the Act, 15 U.S.C. § 1052.

¹⁸ First, by their language, the criteria of 15 U.S.C. § 1052 are nothing necessarily more than those which must be met for a mark to obtain (a) presumptive validity throughout the United States and not just in areas where it is used (Section 7, 15 U.S.C. § 1057), (b) the prospect of incontestability in five years (Section 15, 15 U.S.C. § 1065), and (c) constructive notice of ownership to the public by being on the Register (Section 22, 15 U.S.C. § 1072). These desirable attributes are not available to unregistered marks. Registered and unregistered marks are therefore properly treated differently in these and collateral regards. Second, the language of Section 2 does not definitively exhaust

expressly provides that it pertains only to when registration may not be refused; nothing more and nothing less. If Congress had necessarily wanted those precise criteria to apply to unregistered marks, which were clearly contemplated by the Act, it could have said so on several occasions, most recently when the Act was amended in 1988. The fact is, it did not.¹⁹

A second criticism of the Second Circuit's requirement of distinctiveness in fact is the contention that, under the Fifth Circuit's analysis, the law is well-enough rendered; more is not needed as Respondents argue at 29-42. In fact, in the area of trade dress, the law is not at all well-rendered. It is not even adequately rendered. The Fifth Circuit's analysis cannot and does not address or deal with the difficulties at hand. Nor does it address the competing policy considerations underlying the conflict between the circuits.²⁰ The Second Circuit's actual distinctiveness requirement creates problems for users of new would-be marks, but is a major and important step in the right direction.

A third criticism of the Second Circuit's approach is that, with inherently distinctive marks, there is no primary meaning which has to be overcome by the development of secondary meaning.

all rights and limitations regarding marks to which that language is expressly not applicable ("No trademark . . . shall be refused registration . . ." applies only to marks for which registration is sought.). Third, why should a set of such criteria that, if met, affords specific and additional rights for some marks (those which are more obviously registerable), be required to be met to a tee for putative marks of a demonstrably different character (see footnotes 8, 10, 28 and 37 herein) not accorded those rights? Fourth, Section 43(a) is the experimental vanguard of the Lanham Act. A catcher for the developing federal common law, as it were. Its dynamic in that regard should not be subject to the cryptic straight jacket Respondents propose.

¹⁹ In the 1988 amendments, Congress did not address trade dress issues at all, including the present conflict between the circuits. The permissible inference here is that such matters were to be left to the courts. See n.34 of Res. Br. at 48 for tangential support on this point.

²⁰ For a discussion of these policies, see Section IV, *infra*.

Therefore, the requirement of proof of "secondary meaning" is unnecessary.²¹ This is just a matter of semantics. The primary meaning which develops for an inherently distinctive mark that has no meaning at the outset is that of exclusively identifying a single source or seller in the mind of the public. This is not to say, however, that proof of such distinctiveness in fact should not be required for a trade dress already in use and claimed to be inherently distinctive. What the Second Circuit is really saying is that primary meaning as a trademark must be proved for such a trade dress to be protected as inherently distinctive.

A fourth criticism is one that particularly bothers Respondents. It is that the Second Circuit approach does not realize that some reasonable amount of time is actually necessary in order for the public to come to recognize that even a truly fanciful or arbitrary trade dress is existing and intended to serve as a mark. Consequently, to require proof of distinctiveness in fact during this interim and reasonable incipency period, under the Second and Ninth Circuits' analysis, is to preclude Section 43(a) protection where it really should be afforded.²² That, in turn, imposes an unfair prospect of theft, financial loss or both on the developer of a truly fanciful or arbitrary trade dress. This problem is at the heart of the conflict between the circuits.

First of all, this criticism applies only at the outset or the incipency of use of a trade dress. Secondly, it can be addressed and corrected by the minor refinements of the Second Circuit's analysis suggested in the next section. Those refinements strike a workable compromise between *Chevron* and *Stormy Clime* and accommodate these criticisms.²³

²¹ For this criticism, see the USTA Am. Br. at 5. For their part, Respondents understand this criticism is only semantical. See Res. Br. at 20.

²² This criticism is raised in Res. Br. at 16 and 38-39.

²³ The goal is to avoid capricious application of various notions of inherent distinctiveness in ways that would undermine the federal policies involved and

III. A Slightly Refined Restatement Of The Second And Ninth Circuit Analysis Is A Practicable And Workable Solution To The Conflict Between The Circuits.

The solution to the incipency problem is simply not to require proof of actual distinctiveness for a trade dress that is presumably inherently distinctive, during a reasonable, but brief period at the outset, in order to establish liability. Instead, all that is needed is to limit damages during such period, when liability is found, to some part of the costs of developing and promoting the mark and any damages attributable to delay in having the mark recognized in the marketplace.²⁴

The suggestion here is not that of "secondary meaning in the making" endorsed by the New York District Courts, e.g., *Jolly Good Industries, Inc. v. Elegra Inc.*, 690 F. Supp. 227 (S.D.N.Y. 1988).²⁵ The suggestion here is not anything like that. It is, instead, adoption of the presumption of distinctiveness of *Chevron*, if the appearance of the trade dress genuinely indicates it is fanciful or arbitrary, until a reasonable time has passed to have the trade dress used in the marketplace to see if it develops actual

recall to mind the pornography standard of Justice Stewart of "I know it when I see it." *Jacobellis v. Ohio*, 378 U.S. 184, 197 (1964).

²⁴ Damages for lost profits from diverted customers should not be recoverable during this incipency period because the prospect of confusion — which is the proper test here under Section 43(a) — is more deferred than usual and there is no possibility, during the incipency period, for there to be any actual confusion and therefore any diversion of customers.

²⁵ That notion reaches beyond the purview of what the Lanham Act can lawfully protect because if a putative mark is not presumed from its appearance to be sufficiently distinctive to be inherently distinctive and it presently has no secondary meaning, then it is not a mark at all and may not, therefore, be protected under the Act. See *Cicena Ltd. v. Columbia Telecommunications Group*, 900 F.2d 1546, 1550-51 (D.C. Cir. 1990) and *Black & Decker Mfg. Co. v. Ever-Ready Appliance Mfg. Co.*, 684 F.2d 546 (8th Cir. 1982).

distinctiveness, as expected.²⁶ In other words, the presumption becomes rebuttable, but only after a brief and reasonable incipency period.²⁷

In effect, this means that, for an incipency period, trade dresses thought to be inherently distinctive are to be evaluated under, what in substance is taken to be the Fifth Circuit's *Chevron* analysis, but, after such a period, distinctiveness in fact must be proved according to the Second Circuit's analysis in *Murphy* and *Stormy Cline*. The Second Circuit is most sensible in wanting, as an additional criterion, proof of actual distinctiveness, but should only require such proof in circumstances where distinctiveness in fact has had a reasonable opportunity to develop.²⁸

²⁶ How long that period is must be determined from the circumstances and the nature of the trade dress, assuming that it is genuinely inherently distinctive. The approximately six years in *Chevron*, and the more than ten years in this case are clearly and emphatically too long to be reasonable incipency periods. See *Turtle Wax*. For trade dresses that really are inherently distinctive and that are intended, promoted and noticed to the public from the outset of use to be marks, a year or so at the most should normally do.

²⁷ As an empirical matter, it is likely that it takes longer for secondary meaning to develop for a complex trade dress — if it develops at all — than it does for primary meaning to develop for a fanciful word mark, all other things being equal. In the Fifth Circuit, it is presumed that actual distinctiveness exists at the outset for a truly fanciful word mark such as EXXON[®], for example, regardless of how or whether it is even displayed and promoted. However, this is plainly incorrect. See *In re DC Comics, Inc.*, 689 F.2d 1042, 1050-51 (C.C.P.A. 1982). From the time of the decision to start using EXXON[®] to its actual recognition by the public as a word mark — by being placed on signs above gas stations and by being seen and heard about by the public frequently enough to be actually recognized as a symbol of its owner — undoubtedly took some significant time. Much had to happen. The process is not instantaneous. Some significant amount of time is obviously necessary for actual distinctiveness to develop, even for a mark that is presumably distinctive.

²⁸ A useful way to think about whether a trade dress should be presumed to be inherently distinctive for an incipency period is to consider what it can not be or include. For example, to be truly fanciful or arbitrary, the trade dress should not include within it one or more of the following elements, if any such element(s) comprises a significant or substantial part of the visual appearance of the trade

Additionally, and as a second refinement, a notice provision should be required, both during and after the incipency period, to assure that a trade dress claimed to be inherently distinctive is intended and promoted as a mark and that the public is thereby informed of these facts.²⁹ The trade dress should include within it notice to the public that it is intended and claimed by its user to be a trademark.³⁰

This notice requirement aids promotion of a trade dress claimed to be inherently distinctive and assures that it is identified to the public as being intended as a mark. Such notice alerts would-be competitors to the claim of ownership in the trade dress. It also minimizes the prospect that such a mark will be used as an

dress: (a) any element that is descriptive of any characteristic or the origin of the product or service sold in conjunction with the trade dress, (b) any generic element, (c) any functional element, (d) any element that is common, ordinary, usual or typical to that kind of trade dress, or (e) any combination of any of such elements.

²⁹ This is an important point. Cf. *In re Owens-Corning Fiberglas Corp.*, 774 F.2d 1116 (D.C. Cir. 1985) (substantial promotion of the actual trade dress as a mark) and *First Brands Corp. v. Fred Meyer, Inc.*, 809 F.2d 1378 (9th Cir. 1987) (no promotion of the trade dress as a mark). The key issue on inquiring whether there is actual distinctiveness is not the extent of promotional efforts, but their effectiveness. *Aloe Cream Laboratories, Inc. v. Milsan, Inc.*, 423 F.2d 845, 850 (5th Cir.), *cert. denied*, 398 U.S. 928 (1970).

³⁰ By analogy, such notice would serve the same immediate functions as copyright and registration symbols and, if used from the outset, would also constitute some noteworthy proof that a subsequent action by the user is not a competitive ploy to destroy a competitor and impede competition in the marketplace. Suggested notice language for trade dresses generally might read:

The appearance (or shape) of this _____ is intended and claimed to be a trademark. It may not be copied or duplicated without the prior written consent of the owner.

afterthought in litigation to club a competitor and thereby injure competition.³¹

By refining the analysis and conclusions of the Second and Ninth Circuits on the need for "secondary meaning," a coherent and workable rule can be developed to deal with the problem of inherent distinctiveness presented. This modified Second Circuit rule also addresses the larger concerns raised because it protects and preserves the policy of competition and the policies and balances underlying copyright, patent and trademark law. It does so by precluding the exclusive appropriation and protectability of commercial concepts, in the form of "whole business" images, by assuring that trademarks remain merely commercial road signs, and by assuring that trademark law remains a handmaiden of competition and does not become its executioner.

IV. The Fifth Circuit Rule Of Protecting Complex "Whole Business" Trade Dresses That Are Not Actually Distinctive Would Undermine The Policies Of Competition, Trademark Law, And Copyright And Patent Law.

A. The Litigation Process Would Become Too Capricious and Subjective.

Defense counsel in trade dress cases often attempt to prove that disputed trade dresses lack distinctiveness. It is an important and key defense. When a factual finding based on such proof is ignored by the court and a contrary presumption is upheld, the question of whether a trade dress is inherently distinctive becomes entirely too subjective. Courts and juries are left too much to their own devices and prejudices. There is no effective check on anticompetitive purpose or result. Nor is there a check on the impact on copyright and patent law.

³¹ There is no evidence in this case that Taco Cabana ever provided such notice, unlike the situation in *Fuddruggers*, where a sign was posted on the inside and outside of each restaurant, stating that the appearance of the restaurant is proprietary and is not to be photographed or copied.

As in this case, competitors are unable to make informed judgments on the identity and protectability of trade dresses. Uncertainty reigns.³² "Whole business" image concepts become protectable and trademarks are no longer merely commercial road signs.³³ Instead, trademarks become symbols of judicially established monopolies. These problems auger for clarification of the law by the Court.

B. Important Congressional Policies Would Be Undermined If the Fifth Circuit's Rule Is Allowed to Stand.

One of Congress' intentions, in enacting the Lanham Act, was to defeat monopolies and stimulate competition by the carefully limited protections afforded by trademarks.³⁴ Three important Congressional policies are involved here. The first is the role and function established by Congress for trademarks in the national economy. The second is the strong federal policy favoring free competition, and the third is the federal patent and copyright policy of permitting "imitation and refinement through imitation"

³² Nobel Laureate Milton Friedman often told students at the University of Chicago that a principal reason for America's relative economic success was not that we were necessarily more clever or had more resources than Europeans and others, but that we had a more stable legal environment in which to make longer-run economic decisions.

³³ Trademarks are not copyrights intended by Congress to protect creative efforts such as literature, music, and the like, nor are trademarks similar to design patents, utility patents or other intellectual property intended to protect different types of invention. Trademarks are mere commercial roadsigns that are not intended to protect "creative" effort. In this case, Respondents are attempting to make trademarks into something they are not. See W. M. Landes and R. A. Posner, *The Economics of Trademark Law*, 78-3 THE TRADEMARK REPORTER 267, 270-271 (May-June 1988). See also *Scandia Down Corp. v. Euroquilt, Inc.*, 772 F.2d 1423, 1429-30 (7th Cir. 1985), *cert. denied*, 475 U.S. 1147 (1986), Justice White dissenting, and *W.T. Rogers Co., Inc. v. Keene*, 778 F.2d 334, 338 (7th Cir. 1985), which also recognizes that trade dresses are potentially a proper subject of design patents.

³⁴ See S. Rep. No. 1333, 79th Cong., 2d Sess. 3-4 (1946), *reprinted in* 1946 U.S. Code Cong. Serv. 1274, 1274-75.

where patent and copyright protection are not allowed. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989).

Respondents propose to upset the balances established by Congress between and within these three policies by expanding trademark law out of its traditional domain so as to injure and impair competition and afford protection where copyright and patent law intend to preclude it.³⁵ All three Congressional policies would be undermined. No other commensurately significant Congressional or national policy would be properly served.

1. The anticompetitive consequences

Respondents are now very circumspect about what they say they are asking this Court to protect. "Trade dress protection" are the words now chosen. The protection of a complex trade dress that includes Respondents' "whole business" image as a "creative concept" is really what Respondents are proposing on the facts of this case.³⁶ The proposal has serious anticompetitive implications.

³⁵ Independently of Respondents, the pressures in this quarter are considerable, in part, because Congress has not adopted, in the view of some, a sufficiently comprehensive scheme of design protection law. As one concerned, but insightful commentator has put it:

The *Bonito* opinion reminds us that Congress has yet to enact a satisfactory design protection law and that, should a case of configuration protection under Federal Trademark Law reach the Supreme Court, the scope of protection granted may be considerably less than that afforded by *Morton-Norwich*. Must we await such a decision before suitable legislation is enacted?

(J.B. Pegram, *Trademark Protection of Product and Container Configurations*, 81-1 THE TRADEMARK REPORTER 1, 29 (January-February 1991).

³⁶ See JA I 222-226 which is a several-page listing of trial testimony references where the testimony related to Taco Cabana's and other restaurants' general total restaurant "concept" instead of trade dress. That is the factual record in this case. As the case has proceeded up through the circuit, Taco Cabana has become increasingly quiet about its restaurant concept heard so much about in the trial court, but that is what is involved on the record.

Had some court early on concluded that the McDonald's fast-food hamburger restaurant "concept" or "trade dress" was protectable as an "entire business" trademark, the competition McDonald's now faces, provided by What-A-Burger, Wendy's, Burger King and others, with its attending benefits to the public, would not exist.³⁷ Fortunately, neither McDonald's, nor the law took such an anticompetitive turn. Instead, McDonald's registered the golden arches to become its trademark and did not press the law. Taco Cabana could have and should have done as much.³⁸

The desire of businessmen to do away with their more erstwhile competitors antedates the earliest antitrust laws. It is an essential part of the unrestrained human condition. Unfortunately, all that is needed to have both competition and trademark policy seriously and widely compromised is to have a competitor or two in each industry segment exclusively appropriate a few key commercial concepts under the Fifth Circuit's decision in *Taco Cabana*.

³⁷ The universe of available trade dresses is far more finite than the universe of available trademarks of other types, contrary to what is often supposed. Cf. *Chevron*. This is particularly so in specific market segments, e.g., upscale Mexican fast-food restaurants. The functional and communicative attributes involved in the trade dresses in such market segments make them needed and desired by most competitors in those segments and assure similarity of appearance from one competitor to the next. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION (Tent. Draft No. 2, 1990) (approved by the membership of the American Law Institute, May 1990) § 13, comment b, precluding inherent distinctiveness for trade dresses in such situations.

³⁸ There is no reason Taco Cabana could not have adopted something analogous to McDonald's arches to symbolize and promote its commercial identity, assuming that Taco Cabana felt that its prominently displayed trade name was insufficient. Taco Cabana's motive here is suspicious also because there is no indication that, before this dispute with Two Pesos arose, Taco Cabana ever considered its restaurants' appearance to be a trademark at all.

Trademarks are intended to be a handmaiden of competition, not its executioner.³⁹

2. The untoward consequences for copyright and patent law

The protection of complex "entire business" trade dresses under trademark law would also undermine the federal policy of patent and copyright law to allow "free access to copy whatever the federal patent and copyright laws leave in the public domain." *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 237 (1964), quoted with approval in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 153 (1989).

"Creative" commercial concepts, not protectable by design patents, should not be protected by trademark law.⁴⁰ There is a "strong federal policy favoring free competition in ideas which do not merit patent protection." *Lear, Inc. v. Adkins*, 395 U.S. 653, 656 (1969).

3. The protection of "whole business" concepts is best left to Congress.

Where multiple and well-established Congressional policies interface and interact as Congress intended, courts should not, in effect, create new law that compromises those policies and destroys those balances and interactions. That is not a proper role for the courts.

³⁹ This prospect is the concern the Private Label Manufacturers Association expressed in its *amicus* brief filed in this action. If liability may be premised on a claim of inherent distinctiveness, without proof of secondary meaning (*i.e.*, meaning as a trademark), then competition is unduly and seriously threatened.

⁴⁰ The issue crops up because Taco Cabana's trade dress does not qualify for the protection of a design patent. See 35 U.S.C. § 171. It contains too many disparate and unqualifying elements.

In the last analysis, whether trademark law should be expanded to protect "creative" "whole business" concepts now beyond the reach of the patent and copyright laws is only for Congress to decide. This Court should resolve the circuit conflict along the lines suggested by Petitioner and by so doing preserve and protect these policies and the balances between them.

V. Taco Cabana's Trade Dress Is Not Inherently Distinctive Or Even Close To Being So.

The bottom line on the merits in this action is the same as that so aptly put by the Ninth Circuit in *Fuddruckers*:

Fuddruckers claims trade dress protection for the impression created by a collection of common or functional elements of restaurant decor. Such an overall impression may receive protection, but it is simply not the sort of arbitrary or uncommon trade dress that might qualify as inherently distinctive.

826 F.2d at 843-44 (emphasis added).⁴¹

Where it is truthfully admitted and avowed to by all—including Taco Cabana's founder and chairman, Felix Stehling—that everything in a Taco Cabana restaurant is functional, except for the Mexican decor and the plants,⁴² it is understandable that Taco Cabana's trade dress is unrecognized by the public as a mark after more than 10 years of use. Too many functional and descriptive elements are involved for it to even be recognized by the public as a mark. It is recognized only as a restaurant which is what it is.

⁴¹ The Fuddruckers trade dress is substantially more novel and unusual than Taco Cabana's. 826 F.2d at 839-40. In some key and substantial aspects, Fuddruckers' trade dress is actually and deliberately *dysfunctional* for the sake of appearance. Here, as Felix Stehling put it, a Taco Cabana restaurant is simply a cross between a Taco Bell and a traditional sit-down restaurant. JA I 136-137.

⁴² See, *e.g.*, JA I 129 and 141.

VI. Conclusion.

Absent such distinctiveness in fact, Taco Cabana's trade dress claim must fail for the reasons and analysis Two Pesos has provided. Rendition of judgment in favor of Two Pesos is therefore called for.

RESPECTFULLY SUBMITTED.

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